



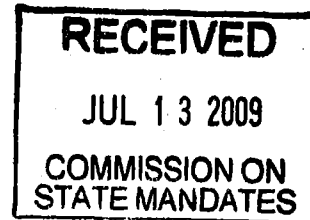
**DEPARTMENT OF
FINANCE**
OFFICE OF THE DIRECTOR

ARNOLD SCHWARZENEGGER, GOVERNOR

STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

July 10, 2009

Ms. Paula Higashi:
Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814



**REQUEST TO AMEND PARAMETERS AND GUIDELINES FOR THE ENROLLMENT FEE
COLLECTION AND ENROLLMENT WAIVER PROGRAM**

Dear Ms. Higashi:

Pursuant to your March 10, 2009 letter, we reviewed the proposed amendments to the Parameters and Guidelines for the *Enrollment Fee Collection and Waivers Program* (99-TC-13 and 00-TC-15). Specifically, the proposed amendments would adopt a reasonable rate methodology (RRM) for the *Enrollment Fee Collection Program* (EFC) and for the *Enrollment Fee Waiver Program* (EFW). The RRM would replace the current cost reimbursement claims process and would be based on the cost reimbursement claim data submitted by 24 sampled community college districts (Districts), including the 16 Districts requesting the RRM, for the 2004-05, 2005-06 and 2006-07 fiscal years.

Specifically, the unit cost for the EFC Program would be calculated by multiplying "the total number of students that paid enrollment fees each semester/quarter by the weighted average unit cost rate for the relevant year." The unit cost for the EFW Program would be calculated by multiplying "the total number of students that requested enrollment fee waivers each year by the weighted average unit cost rate for the relevant year." Both unit rates would be adjusted annually by the Implicit Price Deflator.

We believe it is premature to amend the Parameters and Guidelines and adopt a RRM because the State Controller's Office (SCO) has not conducted field audits of the reimbursement claims for the EFC and EFW Programs. Therefore, it is impossible to substantiate the validity of the costs claimed to date. Establishing a base funding level on unaudited claims could prove detrimental to the state if the true costs are ultimately determined to be lower. Although the SCO has not conducted field audits of claims for the EFC or EFW Programs, it has audited District claims for the *Collective Bargaining Program* and the *Health Fee Elimination Program*. We reviewed the 2003-04, 2004-05, and 2005-06 SCO audit reports for these programs and noted that approximately 40 percent of the annual amounts claimed were disallowed. Given the high disallowance rate in these programs, we do not believe it would be appropriate to adopt a RRM for the EFC and EFW Programs based on unaudited data.

Furthermore, it is unclear if the reported EFC and EFW Program costs for the 24 sampled Districts have been adjusted for disallowed costs identified by SCO desk audits. If not, then the

proposed RRM would be based on overstated costs that should not be used as the basis for adopting a RRM.

Additionally, there is a significant difference between the lowest and highest unit cost for the EFC and EFW Programs as illustrated in the following tables. For example, Long Beach reported 2004-05 data that reflects a unit cost of \$2.85 for the EFW Program, but West Valley-Mission reported data that reflects a unit cost of \$66.54. Such large variances suggest inconsistencies in the data and warrant further scrutiny through SCO field audits. Furthermore, the variances can unduly influence the weighted cost average that is being used as a basis for the RRM. A more rigorous statistical approach that eliminates outliers and focuses on audited data with a greater correlation would be more appropriate.

The tables also illustrate the weighted average cost for the EFC Program increased 19 percent from \$14.01 to \$16.67 for the period 2004-05 to 2006-07. In contrast, the average unit cost for the EFW Program decreased 18 percent from \$19.17 to \$15.76 for the period 2004-05 to 2006-07. It is unclear why there would be such a divergence in costs for these two programs since we have not observed a significant change in the number of waivers granted in proportion to total enrollment. The sample data may be distorted as a result of the 2006-07 sample not including data for three Districts that were included in the 2004-05 and 2005-06 samples. Consequently, we do not believe it is appropriate to base a RRM on samples that do not maintain consistent data.

2004-05

	District	Per Unit EFC Cost	District	Per Unit EFW Cost
Lowest:	West Kern	\$2.68	Long Beach	\$2.85
Highest:	San Bernardino	\$41.33	West Valley-Mission	\$66.54
Total Sample Average:		\$14.01		\$19.17

2005-06

	District	Per Unit EFC Cost	District	Per Unit EFW Cost
Lowest:	Pasadena	\$3.33	Long Beach	\$2.74
Highest:	Gavilan	\$35.34	West Valley	\$64.65
Total Sample Average:		\$14.59		\$18.68

2006-07

	District	Per Unit EFC Cost	District	Per Unit EFW Cost
Lowest:	Pasadena	\$4.15	San Bernardino	\$5.51
Highest:	San Bernardino	\$36.88	West Valley Mission	\$55.44
Total Sample Average:		\$16.67		\$15.76

We also note that there is not a high degree of correlation between the number of students paying enrollment fees and receiving fee waivers and the per unit cost of administering these activities. It would be expected that the Districts' per unit costs would decrease as the number of students served increased as a result of economies of scale. However, the data is inconsistent and does not reflect this relationship between these variables. This lack of correlation ultimately casts doubt on the accuracy of the data and the appropriateness for using the data to determine the RRM.

It is also unclear how the District sample size was determined and how the applicable Districts were selected. The proposed amendment does not specify the basis for selecting the 24 Districts from the population of approximately 37 Districts that submitted reimbursement claims. The only notable feature of the sample is that the 16 Districts requesting the RRM are included in the sample.

Finally, we assume the proposed RRM would apply to all Districts based on the proposed amended Parameters and Guidelines; however, we request clarification because the claimant's cover letter suggests that the RRM only applies to the 16 specified Districts.

If you have any questions regarding this letter, please contact Ed Hanson, Principal Program Budget Analyst at (916) 445-0328.

Sincerely,


JEANNIE OROPEZA
Program Budget Manager

Attachment

Attachment A

DECLARATION OF EDWARD HANSON
DEPARTMENT OF FINANCE
CLAIM NO. 99-TC-13 and 00-TC-15

1. I am currently employed by the State of California, Department of Finance (Finance), am familiar with the duties of Finance, and am authorized to make this declaration on behalf of Finance.
2. We concur that the California Code of Regulations, Title No. 5, Section Number(s) 1200-1225, last amended 2003 sections relevant to this claim are accurately quoted in the test claim submitted by claimants and, therefore, we do not restate them in this declaration.

I certify under penalty of perjury that the facts set forth in the foregoing are true and correct of my own knowledge except as to the matters therein stated as information or belief and, as to those matters, I believe them to be true.

July 10, 2009
at Sacramento, CA

Edward Hanson
Edward Hanson

PROOF OF SERVICE

Test Claim Name: Enrollment Fee Collection and Waivers Program
Test Claim Number: 99-TC-13 and 00-TC-15

I, the undersigned, declare as follows:

I am employed in the County of Sacramento, State of California, I am 18 years of age or older and not a party to the within entitled cause; my business address is 915 L Street, 7th Floor, Sacramento, CA 95814.

On July 10, 2009, I served the attached recommendation of the Department of Finance in said cause, by facsimile to the Commission on State Mandates and by placing a true copy thereof: (1) to claimants and nonstate agencies enclosed in a sealed envelope with postage thereon fully prepaid in the United States Mail at Sacramento, California; and (2) to state agencies in the normal pickup location at 915 L Street, 7th Floor, for Interagency Mail Service, addressed as follows:

A-16
Ms. Paula Higashi, Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814
Facsimile No. 445-0278

Education Mandated Cost Network
Attention: Robert Miyashiro
1121 L Street, Suite 1060
Sacramento, CA 95814

Sixten & Associates
Attention: Keith Petersen
5252 Balboa Avenue, Suite 807
San Diego, CA 92117

State Controller's Office
Attention: Ginny Brummels
Division of Accounting & Reporting
3301 C Street, Suite 500
Sacramento, CA 95816

Centration, Inc.
Attention: Beth Hunter
8570 Utica Avenue, Suite 100
Rancho Cucamonga, CA 91730

San Diego Unified School District
Attention: Arthur Palkowitz
4100 Normal Street, Room 3209
San Diego, CA 92103-8363

State Board of Education
Attention: Debora Merle, Executive Director
1430 N Street, Suite # 5111
Sacramento, CA 95814

School Innovations & Advocacy
Attention: Joe Rombold
11130 Sun Center Drive, Suite 100
Rancho Cordova, CA 95670

Legislative Analyst's Office
Attention: Paul Warren
925 L Street, Suite 1000
Sacramento, CA 95814

California School Management Group
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Tracy, CA 95376

Shields Consulting Group, Inc.
Attention: Steve Shields
1536 36th Street
Sacramento, CA 95816

Reynolds Consulting Group
Attention: Sandy Reynolds
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Temecula, CA 92589

State Controller's Office
Attention: Jim Spano
Division of Audits
300 Capitol Mall, Suite 518
Sacramento, CA 95814

Legislative Analyst's Office
Attention: Marianne O'Malley
925 L Street, Suite 1000
Sacramento, CA 95814

B-29
Mr. Jim Soland
Legislative Analyst's Office
925 L Street, Suite 1000
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Mr. Jon Sharpe
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1919 Spanos Court
Sacramento, CA 95825

Mr. Keith B. Petersen
SixTen & Associates
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Sacramento, CA 95834

California Department of Education
Attention: Amy Tang-Paterno
Fiscal Policy Division
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Sacramento, CA 95814

Steve Smith Enterprise, Inc.
Attention: Steve Smith
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Sacramento, CA 95821

Scribner Consulting Group
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Sacramento, CA 95834

Mandate Resource Services
Attention: Harmeet Barkschat
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Sacramento, CA 95842

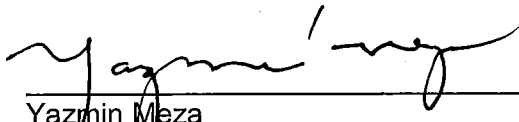
Chris Bonvenuto
Santa Monica Community College District
1900 Pico Blvd.
Santa Monica, CA 90405-1628

Mr. Allan Burdick
MAXIMUS
3130 Kilgore Road, Suite 400
Rancho Cordova, CA 95670

Mr. David E. Scribner
Scribner & Smith, Inc.
2200 Sunrise Boulevard, Suite 220
Gold River, CA 95670

Mr. Michael Johnston
Clovis Unified School District
1450 Herndon Avenue
Clovis, CA 93611-0599

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on July 10, 2009 at Sacramento, California.



Yazmin Meza